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UNCLAS SECTION 01 OF 02 ANKARA 001877

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TREASURY FOR INTERNATIONAL AFFAIRS - JROSE

SENSITIVE  
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REF: ANKARA 1875; ANKARA 1864

E.O. 12958: N/A

TAGS: [EFIN](#) [PGOV](#) [TU](#)

SUBJECT: Turkish Markets Embrace AKP Victory

¶1. (SBU) Summary: Turkish Financial Markets soared in reaction to the AKP's strong -- but not too strong -- performance in parliamentary elections. The result, allowing AKP to form a single-party government with a comfortable majority sets the stage for continued orthodox, investor-friendly economic policies and structural reforms. Reactions from analysts and business leaders was uniformly positive. End Summary.

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Market-Friendly Election Result. . .  
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¶2. (SBU) Markets had been rallying in recent weeks (ref b) buoyed by both global market bullishness and increasing confidence about the election. With pre-election polls showing AK at 35-40% of the vote markets were betting on a "goldilocks" scenario: AK getting enough votes to form a single-party government but not enough to get the 367 votes required to choose the next president. Markets feared the latter scenario raised the potential of a clash with the secularist establishment.

¶3. (SBU) In the event, the results could hardly have been more market-friendly: AK's surprisingly large vote total and comfortable majority will be strong enough to allow them to confidently continue their pro-EU, pro-investor, mostly fiscally disciplined policies, but well below the magic 367-seat number. A side benefit was the relative weakness of opposition parties with their more market-unfriendly economic platforms, particularly the shamelessly populist Youth Party's disastrous 3% vote total.

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... Prompts Strong Market Rally  
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¶4. (SBU) Not surprisingly, the lira took off in night trading in Asia, moving up 1.7%. At the Istanbul opening, markets shot up across the board: in the morning session the lira rallied from Friday's close of 1.2666 against the dollar and 1.7473 against the Euro to 1.2580 against the dollar and 1.7370 against the euro. The Istanbul stock exchange rallied 2.81% from Friday's near-record close of 52,935.75 to reach 54,424.65 and the benchmark Government bond yielded 17.24%, down from 17.42% Friday.

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As Analysts and Business Leaders Enthused  
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¶5. (SBU) Though personally overwhelmingly secularist, both the analyst community and prominent business leaders enthused about the results. One analyst referred to the result as a "best case."

Another titled his electronic newsletter as "apple pie with whipped cream topping." He said AKP's policies are well known to investors: after all, this is a Prime Minister who sold a state company to a Russian-Armenian investor ten days before the election. Analysts flagged the continuing risks associated with the upcoming presidential election but were encouraged by the conciliatory tone of Prime Minister Erdogan's remarks. Analysts said they expect the Government to get back to pursuing EU reforms, returning to its (pre-campaign) fiscal discipline, and even pushing for structural reforms like privatization, social security and labor market reforms.

¶6. (SBU) Likewise, the reaction from business community leaders were uniformly positive. Guler Sabanci, the CEO of the giant Sabanci group, Dogus Group Chairman and U.S.-Turkish Business Council Chair Ferit Sahenk, Istanbul Chamber of Commerce Chair Yalcintas, and Exporters' Union President Satici all made public statements commenting favorably on the elections.

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Too Much of a Good Thing?  
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¶7. (SBU) Aside from some the potential spillover from continued political risks (presidential election, cross-border operation, Armenian Genocide resolution, etc.), the market bullishness itself may be Turkey's biggest economic policy headache going forward. The lira was already widely considered to be overvalued. A continued appreciation, while it will help the central bank's disinflation efforts, could aggravate Turkey's large current account deficit by sucking in relatively cheap imports and hurting export competitiveness. Central Bank officials have told us they would prefer this problem to its opposite (a weak and falling currency) but it is a problem nonetheless.

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